XDS | EXTERNAL DEVELOPMENT SUMMIT

2023 INSIGHTS ON EXTERNAL DEVELOPMENT FOR THE VIDEO GAME INDUSTRY

XDSUMMIT.COM

External development refers to the practice of video game Developers/Publishers (buyers) leveraging Service Providers (sellers) in any aspect of development, including but not limited to art, animation, cinematics, audio, engineering, porting, game development, UX-UI, motion capture, QA, localization, and VFX. External development is an established pillar of the larger games development process. This report is intended to identify trends in external development and provide insight into the most significant concerns facing all parties involved.

This edition of the report includes a focus on the various ways geopolitical events — from political instability to climate change — have directly or indirectly impacted external development, among other valuable additions.

The statistics in this report were derived anonymously from over 220 submissions from industry professionals worldwide. Research and data gathered to establish this report was collected by the organizers of the External Development Summit (XDS), with contributions from the XDS Advisory Committee.

Who We Are

External Development Summit (XDS) is the only annual, international games industry event held in Canada, with a primary focus on external development for Engineering, Co-Development, Art, Animation, Audio, QA and Localization. Each year, a broad community of game Developers/Publishers and Service Providers gather to contribute to the advancement of the video game industry through collaboration, sharing of best practices, networking, and the delivery of a high-caliber, educational program.

XDS

The XDS event is delivered annually in Vancouver, Canada in September. For regular event updates, sign up for our newsletter.

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The data in this report was collected between the dates of December 6, 2022 and January 31, 2023. Note that some data tables throughout this report may not add to a total % of 100 due to rounding.

DISCLAIMER: This report was researched, written and designed by humans. No generative AI was used in its creation.

The landscape of external development is changing…

Based on data and anecdotal evidence collected, we ***detect*** a shift from a Sellers' market to a Buyers' market.

1 Developer/Publisher needs and purchasing behaviours are changing.

In a world of ongoing market consolidation and economic instability, buyers are looking for cost savings, hard-to-find skill sets and flexible resourcing. This may be a challenge for many Service Providers who have grown accustomed to choosing multi-discipline, long-term engagements that pay top dollar.

Although the market is shifting, we recommend that Developers/Publishers continue to pay competitive rates for quality in order to build and maintain long-term partnerships.

2 Talent scarcity, economic instability and geopolitical events are driving Developers/Publishers to take a more conservative approach to external development.

Service Providers report a struggle to access reliable, high quality talent. That is driving up wages and, in turn, increasing costs to buyers. Some of the largest Developers/Publishers have acquired talent through M&A. Others have delayed or canceled projects due to softening sales and/or economic uncertainty. The demand for external support is lower, and Service Providers are feeling the impact.

Developers/Publishers who continue to leverage external support are mitigating risks by putting more retainer agreements in place, diversifying their partners and seeking talent closer to home.

Chris Arkenberg and Kevin Westcott. "Let's make a deal—in gaming! Gaming M&A is growing on the back of consolidation, portfolio plays, and game tech," Deloitte, Nov 30, 2022

SERVICE PROVIDER OVERVIEW

EXTERNAL DEVELOPMENT CONTINUES TO BROADEN GLOBALLY

Top Survey Participants

USA

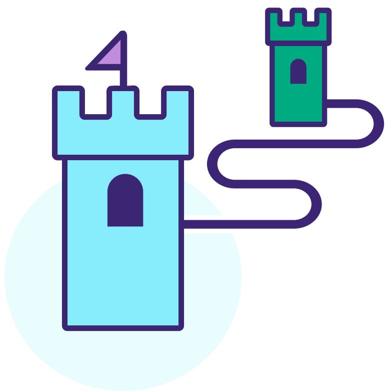
CANADA

INDIA

India outpaced the UK, joining the ranks with the **USA** and **Canada** as the three countries with the highest number of Service Provider participants in this year's survey.

We saw more Service Provider participants from **Armenia, Brazil, Japan, Spain** and **Sweden** in particular.

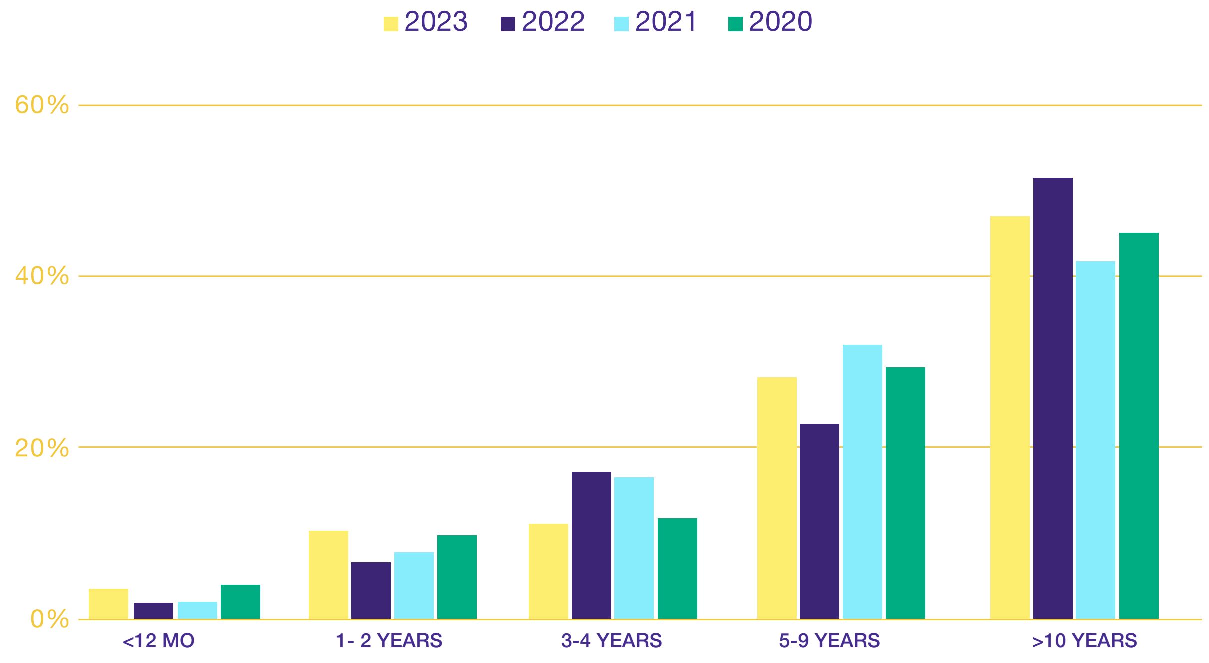
Due to geopolitical events, a number of Service Providers report having **opened new locations** in countries such as **Armenia and Spain**. Rising demand for game development in **South America** has also been reported.



YEARS IN OPERATION

Where are the industry newbies?

We observe the number of new Service Providers has been low for several years. Whether this is due to new companies not yet being exposed to XDS, a true lack of new companies coming on the scene, or a combination of both, **we need new Service Providers** in an industry with growing demand and consolidation.

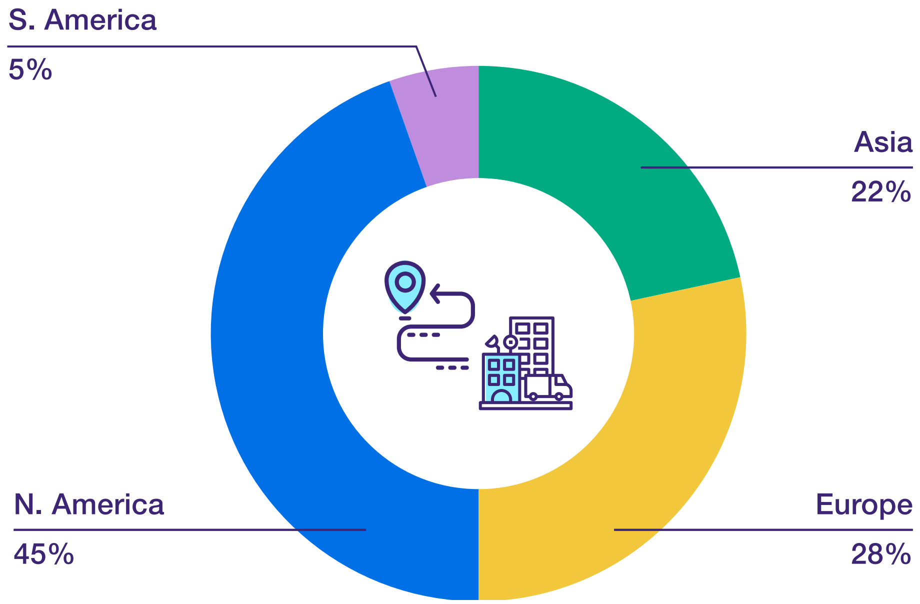


SERVICE PROVIDER OVERVIEW

NEW LOCATIONS

Service Providers continue to open new locations despite shifts towards greater remote or hybrid work models.

Some new locations are opening due to impact from geopolitical events.



We suspect that Service Providers are picking up on Western Developers/Publishers' preference to work with partners in close geographic and/or time zone proximity. Look for **new Service Provider locations** to pop up, particularly in the US and Canada, over the next year.

COMPANY SIZE

Many Service Providers have seen massive growth!

The number of Service Providers reporting 1,500+ employees has **nearly doubled** in the last year. Despite ongoing M&A activity, our data shows that most of this growth has happened through hiring, not acquisition.

The number of Service Providers reporting 250-499 employees is **up by 23%**.

The trend of industry consolidation continues as Service Providers (and Developers/Publishers) lock down talent through acquisition, likely to avoid facing an increasingly scarce pool of talent.

SERVICE PROVIDER OVERVIEW

Service Providers lean into Art, Animation and Cinematics/VFX service offerings.

① ART
solidly remains the #1 Service Provider offering

② ANIMATION
holds steady in 2nd place, with growth of 8%

③ CINEMATICS/VFX
is up by 8% and has taken the place of *Console Game Development*, which was in 3rd last year

Console Game Development is down by 8%
likely due to the fact that development for the current generation of consoles has stabilized

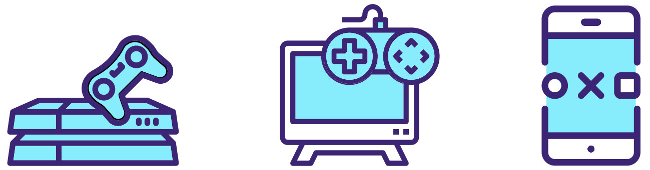
KEY SERVICES PROVIDED BY SERVICE PROVIDERS

	2023		2022	2021	2020
Art	**75%**	↓	79%	70%	74%
Animation	**49%**	↑	40%	44%	57%
Cinematics/VFX	**32%**	↑	24%	23%	34%
Game Development – PC/Online	**31%**	↑	30%	32%	39%
Engineering (server side, front end, web development, etc.)	**27%**	↑	22%	27%	20%
Game Development – Mobile	**26%**	↑	24%	35%	39%
Game Development – Console	**22%**	↓	30%	32%	36%
UI/UX	**22%**	↑	20%	19%	21%
QA	**18%**	↑	14%	15%	22%
Motion/Facial capture	**18%**	↑	10%	-	-
Game Development – VR/AR	**16%**		16%	24%	35%
Audio	**16%**	↑	11%	8%	15%
Game Development – Cloud-based	**10%**	↓	12%	-	-
Localization	**12%**	↑	8%	8%	15%

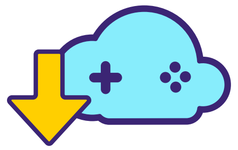
DEVELOPER/PUBLISHER OVERVIEW

Developer/Publisher participants report a decrease in focus across platforms

TOP 3 PLATFORMS



Console, Browser/PC and Mobile remain the top 3 platforms of focus for Developers/Publishers who participated this year.



Streaming/Cloud games witnessed a noticeable decline, down by over half as compared to last year. With the cancellation of Google's Stadia streaming service, and other market corrections, it's possible that supply simply hasn't kept up with demand in this category.

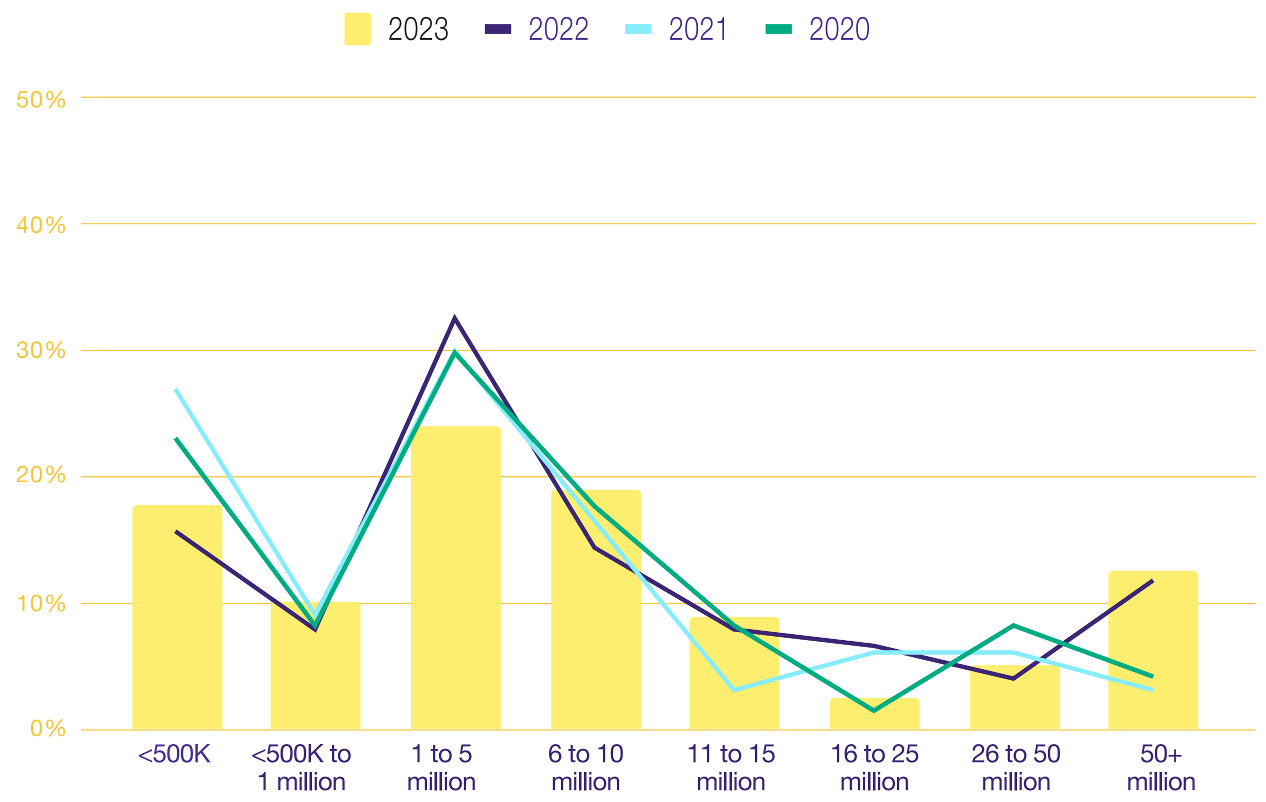
PUBLISHER/DEVELOPER PLATFORM FOCUS

	2023	2022	2021	2020
Console games	**71%** ↓	73%	72%	70%
PC/Browser games	**57%** ↓	60%	61%	66%
Mobile games	**41%** ↓	44%	40%	56%
VR/AR games	**15%** ↓	19%	10%	15%
Streaming/Cloud games	**5%** ↓	12%	13%	7%
Tools development	**9%**	9%	—	—
Facebook games	**2%**	2%	1%	2%

OVERVIEW OF THE
BUSINESS RELATIONSHIP

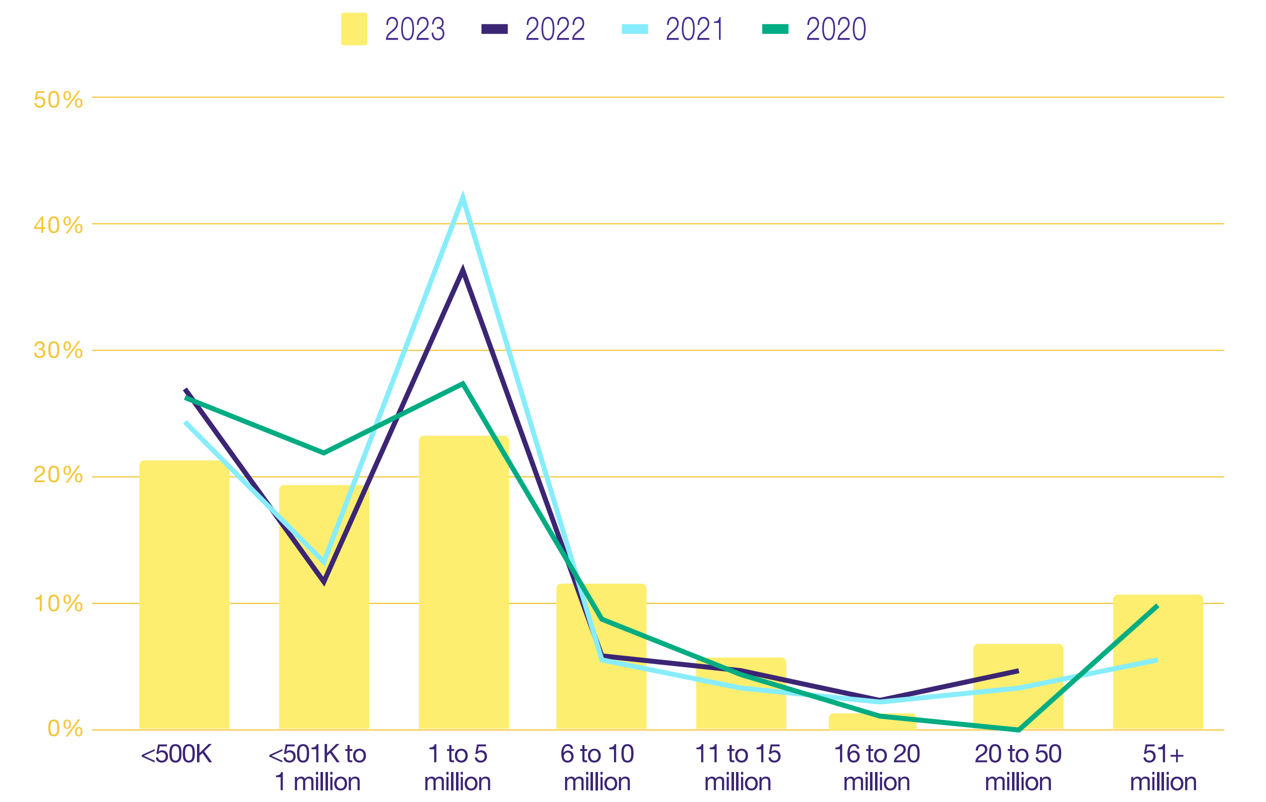
DEVELOPERS/PUBLISHERS

ESTIMATED ANNUAL SPEND ON EXTERNAL DEVELOPMENT (USD)



SERVICE PROVIDERS

ESTIMATED GROSS ANNUAL REVENUE (USD)



Despite tighter budgets Developers/Publishers estimate their annual spend on external development to be similar to last year.

However, we see a gradual YoY trend in the direction of multi-million dollar external development budgets.

Overall, Service Providers saw higher sums of revenue than in previous years.

While fewer report revenue in the 1-5 million range, more report revenue over 5 million, and into the 10s of millions, as compared to previous years.

Top 5 most important factors

Developer/Publishers seek when selecting a Service Provider

1 | **Quality of Work** (assets, code, etc.) has dominated as the #1 factor Developers/Publishers care about for 5 years now. This year, it is ranked **nearly double** in importance above Rates.

2 | **Rates** has trended up and down over the last 5 years, but it's remained solidly in the top 3 since the beginning of COVID in 2020.

3 | **Team Skill Sets** has fluctuated slightly up and down, but it has continued to remain in the top 5 factors YoY.

4 | **Track Record** (previous clients, projects) is ranked with less importance this year but, along with Team Skill Sets, continues to remain in the top 5.

5 | **Current established relationships** has been slowly trending upwards for the last 5 years. It has now outranked Language/ Communication Skills, last year's #5 factor.

Service Providers, *take note!*

Geographic and/or Time Zone Proximity is not yet in the top 5, but it's close. It has continued to increase in importance over the last 5 years. This suggests that Developers/Publishers increasingly prefer to keep work aligned with their locations.

Security Requirements is **down 50%** in importance compared to last year! We think Developers/ Publishers have adjusted to and accepted that remote work is here to stay, thus lessening Security as a key decision making factor.

DEVELOPERS/PUBLISHERS:

Frequency of changing partners year-over-year

As talent scarcity has become a bigger issue, Developers/Publishers switched partners less frequently.

ART PARTNERS

	2023	2022	2021	2020
100% are the same YoY	10% ↑	8%	4%	8%
75% are the same	60% ↓	61%	67%	68%
50% are the same	22% ↑	18%	23%	23%
< 50% are the same	4% ↑	5%	3%	3%

ENGINEERING PARTNERS

	2023	2022	2021	2020
100% are the same YoY	3% ↓	6%	10%	14%
75% are the same	31% ↓	39%	27%	60%
50% are the same	14% ↑	12%	18%	26%
< 50% are the same	9%	9%	3%	0%

Developers/Publishers tend to stick to art partners they know, with **little variation** YoY.

Engineering partners vary more than art, but engineering partner trends remain consistent. **Only a third** of Developers/Publishers **consistently use the same Engineering Partners YoY.**

Developers/Publishers continue to find new Service Providers primarily through internal referrals.

HOW DO YOU MEET THE MAJORITY OF YOUR PARTNERS?

Reported by **DEVELOPERS / PUBLISHERS***	**2023**	2022	2021	2020
Internal referrals & company resources	**80%** ↑	72%	71%	42%
Games industry events	**59%** ↑	34%	42%	22%
External referrals (industry wide)	**36%** ↑	35%	30%	16%
External partner reach-out / cold-call	**26%** ↓	27%	30%	3%
Online search engine	**26%** ↑	25%	18%	3%
Networking sites	**16%** ↑	15%	13%	6%
Industry news/media	**6%** ↓	9%	4%	3%

76%

of Service Providers are **optimistic** about achieving their business goals in the coming year (i.e. closing deals, hitting revenue targets, etc.)

80%

of Developers/Publishers are **optimistic or very optimistic** about their external development needs being met over the coming year.

XDS

Industry events remain vital.

After a few years of virtual events, **in-person games industry events** are back as a key way for Developers/ Publishers to meet new Service Providers.

Find your next partner at XDS 2023!

WHAT IS GOING ON WITH RATES?

65% OF SERVICE PROVIDERS INCREASED THEIR RATES IN THE PAST YEAR

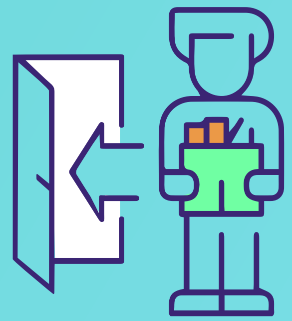
50% say this is largely due to inflation

HOWEVER...

SERVICES PROVIDERS ARE SLOWING ON RATE NEGOTIATION,

as they are up against economic uncertainty, and talent scarcity, amongst other challenges

WHAT ABOUT ATTRITION?



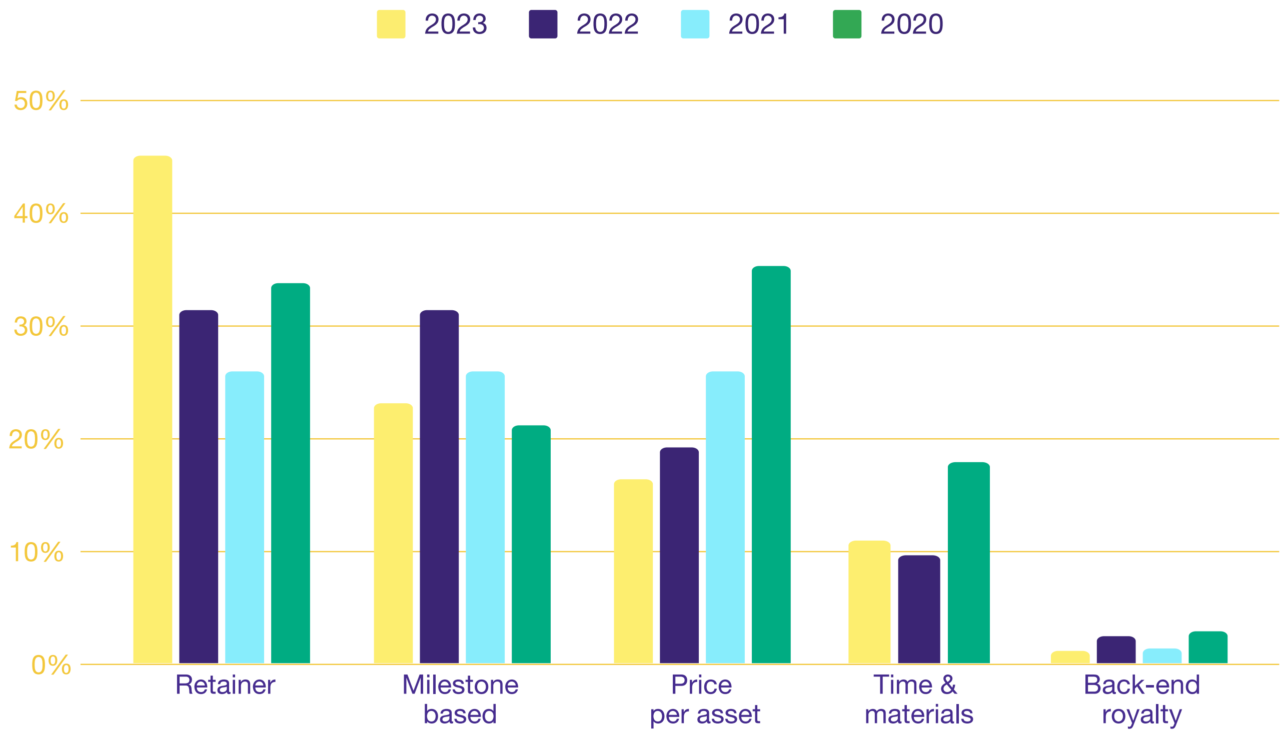
Service Providers continue to struggle to retain talent

29% OF SERVICE PROVIDERS REPORT INCREASED ATTRITION

6% INCREASE YOY

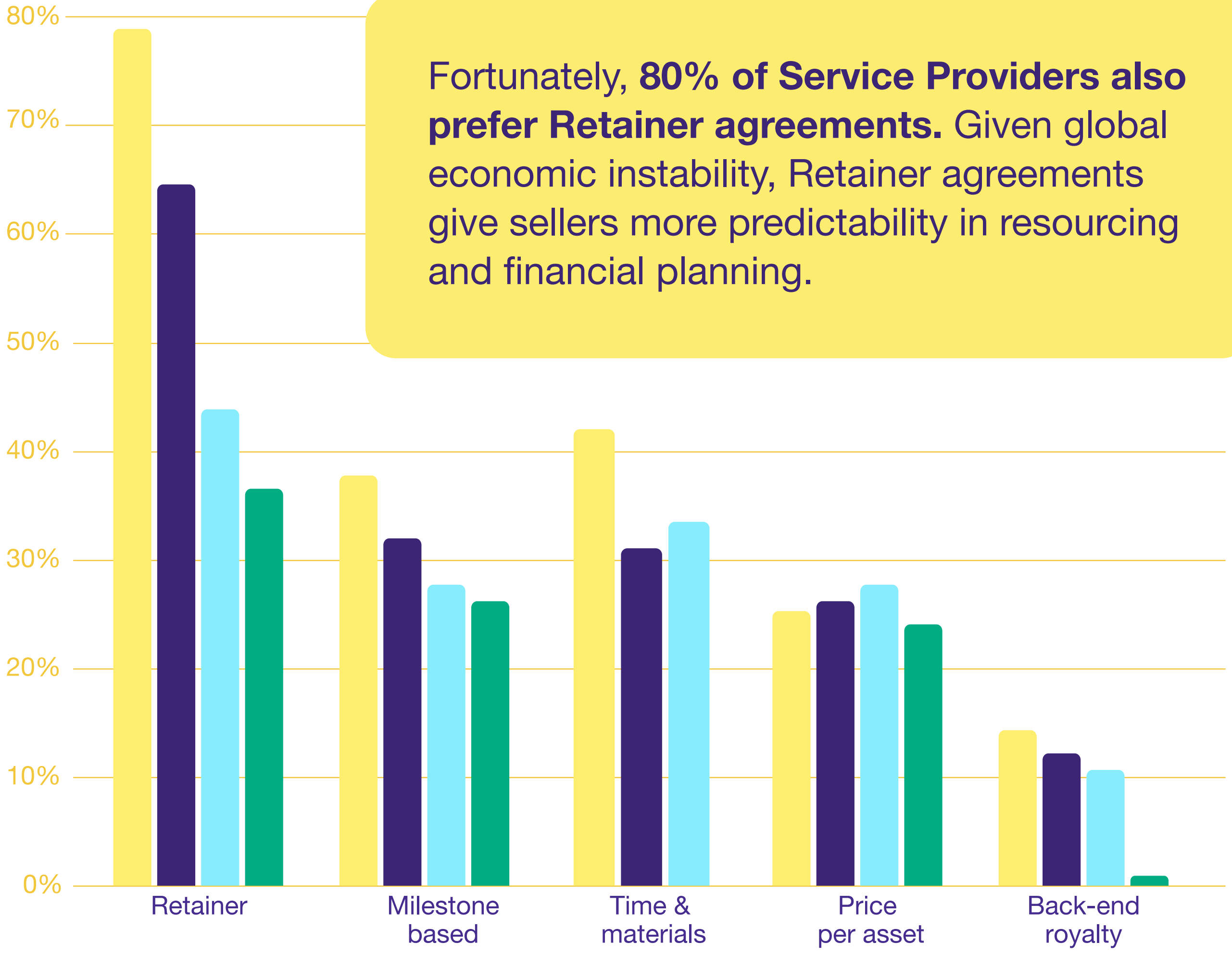
Developer/Publisher Contract Preferences

Developers/Publishers increasingly prefer retainer agreements. Given competition and scarcity of quality talent, buyers understandably want to retain Service Provider talent they know and trust.



Service Provider Contract Preferences

Fortunately, **80% of Service Providers also prefer Retainer agreements.** Given global economic instability, Retainer agreements give sellers more predictability in resourcing and financial planning.



Developers/Publishers and Service Providers should consider leaning into Retainer agreements as both a way to find common ground, and as a means to possibly simplify the often-burdensome process of contract negotiation. However, this **should not** undermine the importance of thorough planning, documentation and direction provided by the client.

EXTERNAL DEVELOPMENT
INDUSTRY OBSERVATIONS

The topic we've chosen to highlight is the impact of Geopolitical Events – from political instability to climate change – have had across the external development landscape.

Reference to Geopolitical Events in this section ***does not*** *include impacts related to COVID-19.*

Service Providers are feeling the impacts of economic uncertainty, market consolidation and shifts in demand.

Based on overwhelming evidence from respondents, we believe that **market consolidation**, along with **economic uncertainty** are **driving down demand for external services.**

It's worth noting that, while we do see evidence of changes to demand both in data and in anecdotal reports, when we asked Developers/ Publishers directly about their demand for external development, those results showed little change as compared to last year.

That said, shifts in demand for services are evident in the high rate of **project delays** (and cancellations) reported, as well as in reports from Service Providers about their top future concerns.

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On a positive note, challenges reported last year, such as **communication** and **security issues**, have **decreased significantly.**

TOP 5 ISSUES

Encountered by Service Providers

	2023	2022	2021	2020
Shifting project schedules and delays	**50%** ↑	43%	50%	53%
Inadequate documentation & direction	**29%** ↑	28%	37%	26%
Excessive iteration (unplanned)	**29%** ↓	37%	37%	46%
Differences between internal & client time estimates	**25%** ↓	35%	28%	27%
Acquisition of client	**21%** ↑	13%	17%	21%

Developers/Publishers report a noticeable decrease in some external development issues, but an emergent rise in impact of geopolitical instability.

Despite concerns of talent scarcity, Developers/Publishers report that issues of partners **lacking capacity** is down by a significant margin as compared to last year. **Rising costs of doing business** has caused some Developers/Publishers to pull back on their internal and, in turn, external development plans.

Anecdotal reports suggest that many Developers/Publishers are meeting their would-be external needs internally as a result of **market consolidation**.

Developers/Publishers have also seen an easing of issues reported last year, such as **communication** and **IT pipeline** related issues, the latter of which are no longer in the top 5.

TOP 6 ISSUES

Encountered by Developers/Publishers

	2023	2022	2021	2020
Partners lack capacity	**32%** ↓	55%	47%	46%
Communication challenges	**29%** ↓	31%	35%	35%
Iteration issues (volume, speed)	**29%** ↑	27%	43%	38%
Poor quality deliverables	**28%** ↑	27%	34%	49%
Loss of talent	**26%** ↓	29%	27%	24%
Geopolitical instability [NEW]	**24%**	–	–	–

Note that the new addition of **“Geopolitical instability”** resulted in significantly lowered percentages, resulting in a downward trend across the board. Geopolitical Instability came in 6th place, accounting for **24% of responses.**

TOP 5 REASONS

Developers/Publishers Engage Service Providers

	2023	2022	2021	2020
To build more content and features	65% ↑	63%	77%	67%
Flexible skill-set ramp-up/ramp-down	58% ↓	65%	68%	70%
Access hard-to-find skills/capabilities	57% ↑	43%	30%	31%
Cost Savings	42% ↑	33%	56%	53%
Lack of available local resources	32% ↓	48%	27%	34%

Developer/Publisher reasons to leverage external development are changing...

Developers/Publishers still rely on Service Providers for **flexible skill-sets to build content and features**, but this need has been decreasing over the last five years.

The demand for **hard-to-find skills/capabilities is increasing**, leading to greater specialization and niche requests.

While cost savings remain a reason to seek external support, **rising inflation, a shortage of quality talent, and a concentration of seasoned Service Provider**s make it difficult for Developers/Publishers to find quality *and* cost savings.

TOP 5 REASONS

Service Providers Choose New Client Projects

	2023	2022	2021	2020
Rates the client can pay	**58%** ↑	53%	50%	51%
Potential for future projects	**51%**	51%	65%	74%
Prestige of project/client	**48%** ↓	53%	52%	53%
Availability of resources to accommodate client needs	**44%** ↑	33%	39%	38%
Size of engagement	**29%** ↑	24%	17%	23%

Service Providers are looking for Clients who can pay more to offset the rising cost of quality talent.

Small to mid-size Developers/Publishers may find it harder to access top talent when competing with large companies who can **pay higher rates** for Service Provider talent.

Future project potential is less important than it was 3-5 years ago, but it remains a **high priority** for Service Providers.

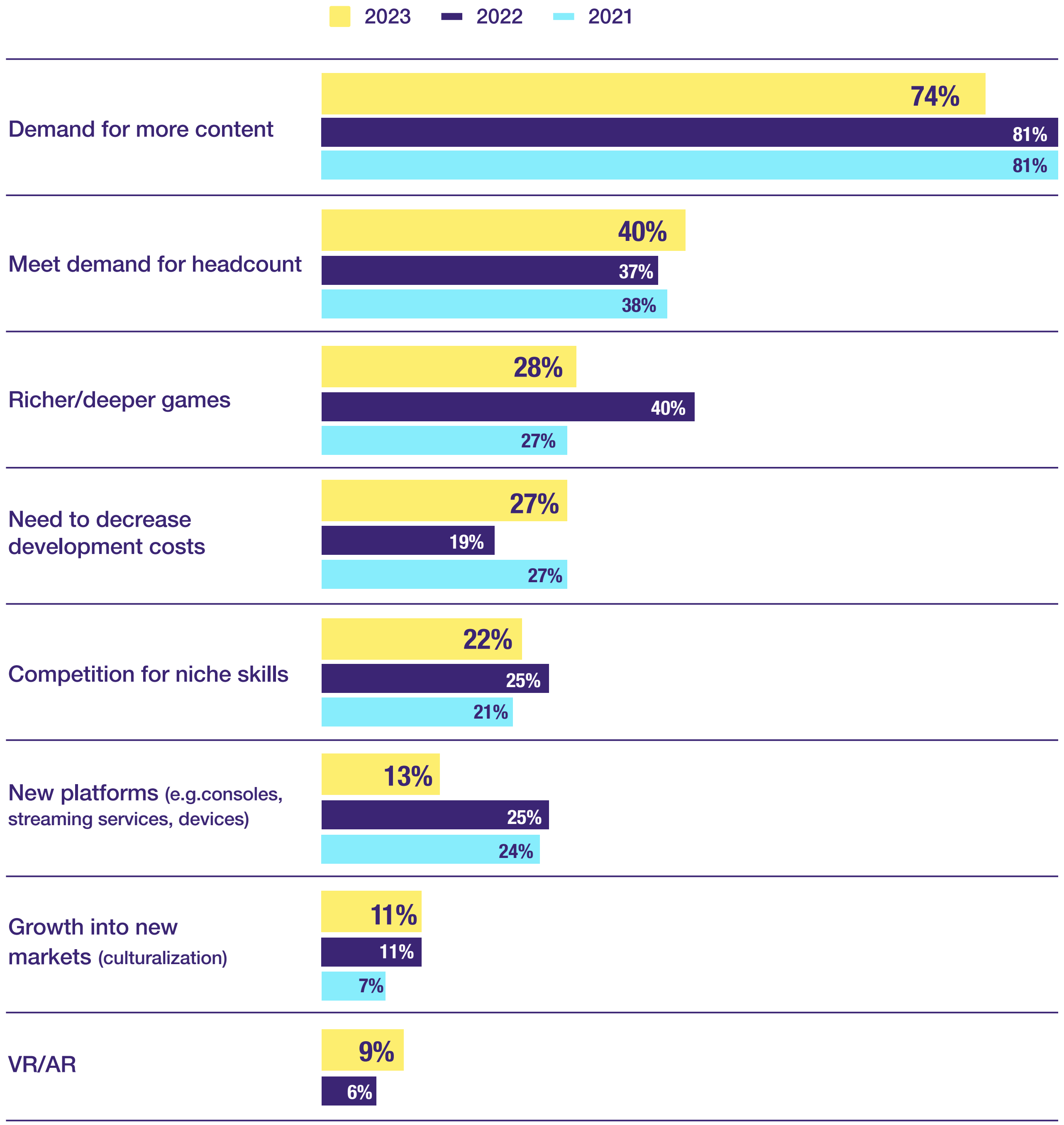
Prestige of project/client and **learning opportunities** have gradually decreased in importance over the last 4 years as experienced Service Providers don't need to focus as much on enhancing their portfolio.

Developers/Publishers report decreased demand for more content.

While **demand for content** continues to be the biggest driver for external development overall, it's **down 8%** compared to the past two years. This may be due to the rapid rise in **AI generated content**, and/or a **decrease in demand** compared to when player demand for games and content was greater.

Developers/Publishers predict that the **need to decrease development costs** will be a bigger driver than in recent years. With quality being Developer/Publisher's top priority, and a growing desire for Service Providers in closer geographic / time zone proximity, buyers may find themselves with **limited options** until economic uncertainty and/or talent scarcity improve.

Last year's prediction for **richer/deeper games** as a top driver seems to be an outlier, at least over the last three years of reporting.



DEVELOPER/PUBLISHER

Top projected areas of increased demand in the next 18 months

	2023	2022	2021
3D Art	**54%**	63%	59%
Cinematics/VFX	**38%**	35%	34%
2D Concept Art	**38%**	—	—
Engineering (server side, front end, tools, engine)	**33%**	28%	29%
QA	**30%**	15%	19%
Localization	**24%**	11%	19%
Live services (Customer Support, Live Operations)	**21%**	22%	12%
Audio	**21%**	20%	18%
UI/UX	**20%**	23%	26%
Keyframe Animation	**17%**	20%	21%

DESPITE REPORTS OF SLOWING DEMAND, EXTERNAL DEVELOPMENT CONTINUES TO GROW OVERALL.

The *average* predictions for growth over the next 18 months remain steady compared to the past two years.

3D ART

We see a 9% decrease in forecasted growth in 3D Art. This may be tied to the anticipation of **AI TOOLS** coming into play.

QA LOC

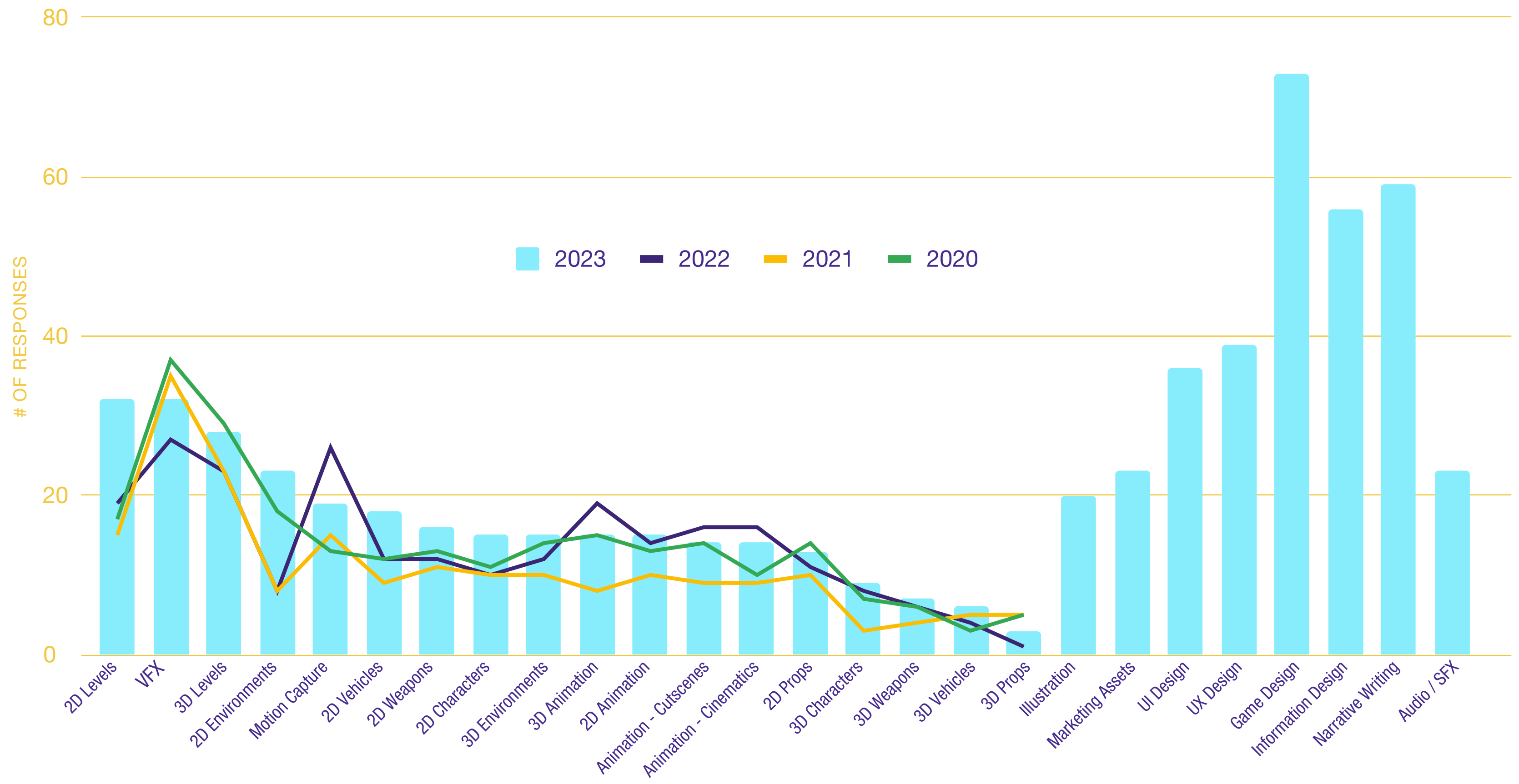
IT'S A GOOD TIME TO BE A QA AND/OR LOCALIZATION PROVIDER

Predictions of external needs for QA are up 16% and localization by 13%.

CREATIVE WORK

Developers/Publishers are sending less 2D assets external than anytime in the past 4 years.

CREATIVE WORK THAT REMAINS INTERNAL



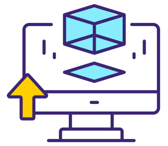
You will notice several new categories this year. Previously, the survey on took a read on art assets. This year, we decided to expand our ask to Developers/Publishers to indicate which **creative** opportunities their teams keep internally. In future years, we will have YoY comparisons to share.

TOP CREATIVE AREAS sending external

In contrast to what remains internal, these are the top 5 creative areas Developers/Publishers are sending **external**, either fully or along with internal support.

1. 3D Characters
2. 3D Props
3. 3D Environments
4. 3D Weapons
5. 2D Characters & 3D Animation (tie)

Slightly more **3D art** went out of house over the last year, but it's remained fairly consistent over the last four years.

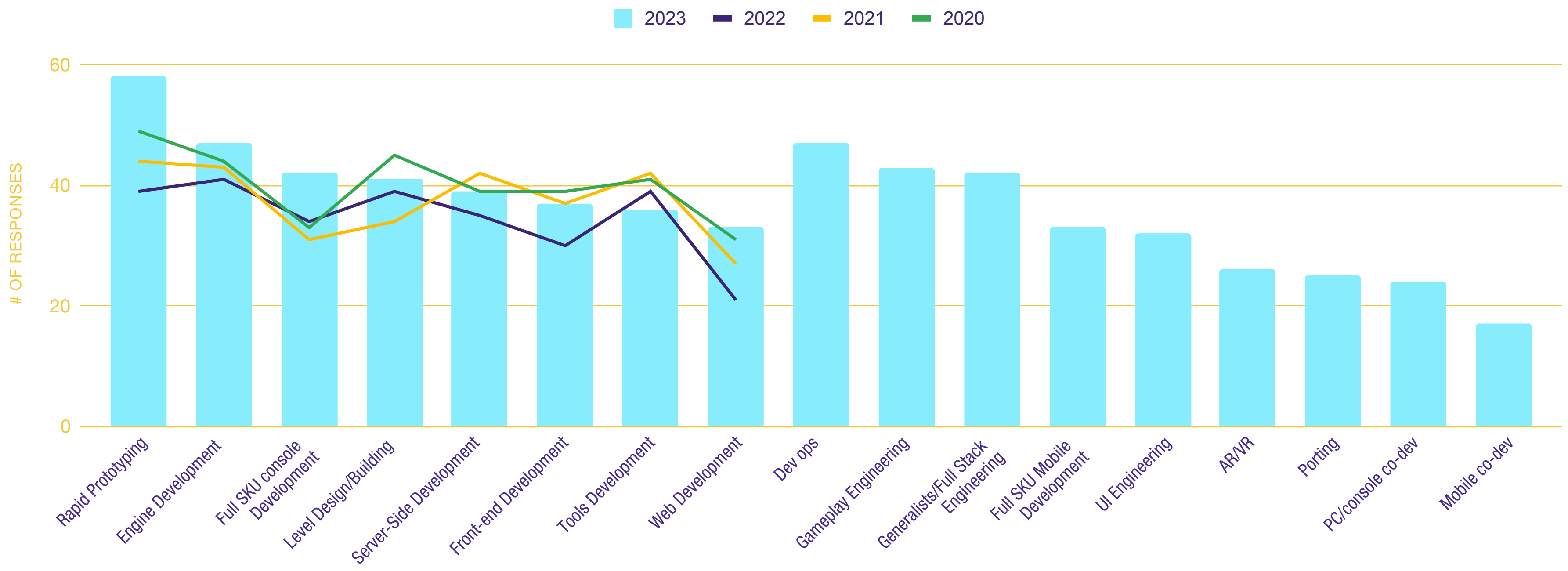


Slightly more **animation** is going out of house, while the amount of VFX going external is down to roughly the same rate it was 2-3 years ago.

ENGINEERING

Developers/Publishers are sending less Engineering external compared to recent years.

TYPES OF DEVELOPMENT THAT REMAINS INTERNAL



As we have seen a broader range of specialties go external over the years, we added several new options this year to capture that shift. We do not yet have YoY data captured for those areas.

TOP DEVELOPMENT AREAS sending external

In contrast to what remains internal, these are the top 5 development areas Developers/Publishers are sending **external,** either fully or along with internal support.

1. Porting
2. PC/Console Co-development
3. Tools Development
4. UI Engineering
5. Generalist/Full Stack Engineering

Tools development is the only area of engineering that has increased in going external in recent years.

THE GEOPOLITICAL EFFECT

Developers/Publishers have been heavily impacted by geopolitical events of the last year.

89%

of Developers/Publishers say that geopolitical events impacted their external development practices.

77%

of those say that geopolitical events had a **moderate to significant impact.**

AFFECT OF GEOPOLITICAL EVENTS ON EXTERNAL DEVELOPMENT PRACTICES

International Conflict	52%
Political Instability	42%
Government Regulation	23%
Economic Instability	22%
Climate Change	5%

"Geopolitics is a term that encompasses multiple definitions. Historically it's used to describe the practice of states to control and compete for territory. However more recently, power struggles and other events involving diverse agents — including corporations, non-governmental organizations, rebel groups, and political parties — have also been classified as part of geopolitics."

*Source: https://www.federalreserve.gov/econres/ifdp/files/ifdp1222.pdf

Despite broad impacts from geopolitical events, *most* Developers/Publishers DID NOT see delays in external development engagements.

28%

of Developers/Publishers report delays, however only a small fraction experience delays longer than **1-3 months**.

THE GEOPOLITICAL EFFECT

88%

of Developers/Publishers have **MADE CHANGES TO THEIR EXTERNAL DEVELOPMENT STRATEGY** in the past year due to geopolitical events.

CHANGES MADE

Geopolitical events have made Developers/ Publishers **more empathetic** towards impacted partners.

Many Developers/Publishers have had to **shift work** away from affected region(s).

In order to mitigate risk, many Developers/ Publishers have **diversified their Service Providers** in order to mitigate risk.

WHAT RESPONDENTS SAID

"We were working with a partner in Ukraine. Their output was astonishingly unaffected and they continued to deliver high quality assets mostly on time. The only change was that we told them we would be paying them more."

"[We have to be] mindful of starting relationships with companies in areas with geopolitical conflict."

"We had to diversify [our partners] to account for geopolitical events."

THE GEOPOLITICAL EFFECT

Most Service Providers report broad impacts on their companies from geopolitical events over the last year.

77%*

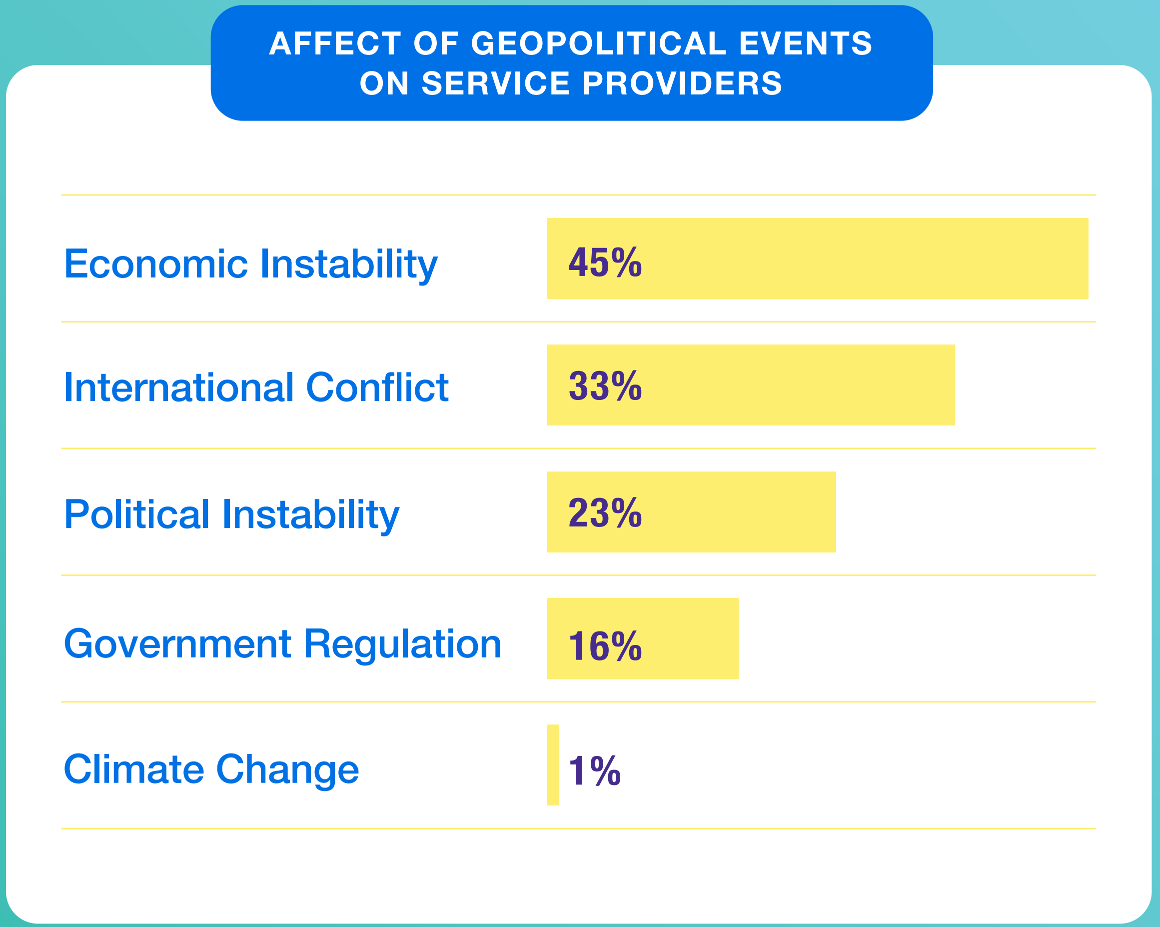
of Service Providers say that their companies were affected by one or more geopolitical events over the last year

***14% lower than Developers/Publishers**

59%*

of Service Providers say that geopolitical events have had a **moderate to significant impact** on their business.

***18% lower than Developers/Publishers**



While it's important to understand the overall differences in perspective between Developers/Publishers and Service Providers, these numbers **do not in any way** diminish the severity of impact that many Service Providers, particularly in war torn regions, have experienced over the past year.

Service Providers have been MORE THAN TWICE as affected by Economic Instability than Developers/Publishers.

19%

FEWER SERVICE PROVIDERS, compared to Developers/Publishers, report impacts from International Conflict and/or Political Instability.

11%

of Service Providers, and likely a portion of the 19% who chose not to answer, **relocated production to one or more new locations due to geopolitical instabilities.**

POLAND + SPAIN identified as two of the top new production locations

THE GEOPOLITICAL EFFECT

Service Providers share devastating impacts from geopolitical events of the last year.

88%

of Service Providers have **MADE CHANGES TO THEIR EXTERNAL DEVELOPMENT STRATEGY** in the past year due to geopolitical events.

While the changes Developers/Publishers and Service Providers say they have made due to geopolitical events are similar, Service Providers explanations of how geopolitical events have impacted them show a *different* perspective and set of considerations.

CHANGES MADE

Service Providers say that geopolitical events have made their company and employees **more empathetic towards companies in affected regions.**

Many companies in high conflict areas have chosen to **shift production** to new locations, away from affected region(s).

As geopolitical events have driven up the cost of doing business, many Service Providers also report **increasing rates** to clients.

WHAT RESPONDENTS SAID

"Our Ukraine contractors had to stop. Some of them choose to fight instead of relocate. Some of our Ukraine staff passed away, or were hit from strikes from Russia."

"Decrease in work from Eastern Europe. Change in regulations in Europe makes it much more difficult to hire as cost and required commitment are too high."

"Due to bad economy and social insecurity, experienced people search for opportunity to work in USA or Europe."

We encourage this community to show their deepest possible compassion toward partners operating in volatile locations, as the situation may be damaging to their business and perilous for employees.

TOP TOOLS

AI tools and external development are at a major inflection point.

It's no surprise that both Developers/Publishers and Service Providers are quickly adopting, or have plans to adopt, AI tools such as ChatGPT, Midjourney, MagnifAI. While AI tools have the potential to unlock enormous opportunity, they also come with high stakes and great responsibility. We encourage Developers/Publishers and Service Providers to openly discuss and mutually agree upon how AI tools are used in external development.

TOP EMERGING TOOLS

BY SERVICE PROVIDER:

Unreal Engine

miro

Midjourney

BY DEVELOPER/PUBLISHER:

miro

box

Airtable

TOP FUTURE TOOLS

BY SERVICE PROVIDER:

Various AI Tools

blender

BY DEVELOPER/PUBLISHER:

Various AI Tools

AUTODESK ShotGrid

	SERVICE PROVIDERS	DEVELOPERS / PUBLISHERS
Project Management	1 Jira 2 Trello ↑ 3 Excel and Asana (tie) ↑	1 Jira 2 Shotgrid (prev. Shotgun) 3 Trello ↑
Communication	1 Slack 2 Email ↑ 3 Discord ↑	1 Slack 2 Email ↑ 3 Teams ↑
File Transfer	1 Google Drive 2 Dropbox ↑ 3 Aspera ↑	1 Perforce ↑ 2 Google Drive 3 Aspera ↓
Art Review	1 Shotgrid 2 Slack, Basecamp, Sync Sketch (tie) ↑ 3 Miro ↑	1 Shotgrid 2 Jira and Miro (tie) ↑ 3 SyncSketch ↑
Code Review	1 Github 2 Perforce and Jira ↑ 3 Internal Tool	1 Perforce ↑ 2 Github ↓ 3 Other
External Company Database	1 Pipedrive 2 Monday ↑ 3 Nethunt ↑	1 Salesforce 2 Hubspot ↑ 3 Other
Engines	1 Unreal 2 Unity 3 Proprietary	1 Unreal 2 Unity 3 Proprietary
Code Version Control	NA	1 Perforce 2 Github 3 Plastic ↑

WORKPLACE & TRAVEL

This new section pulls together insights related to remote work, changes in business travel, Diversity, Equity and Inclusion and sustainability practices within the industry and more.

REMOTE WORK

Most Developers/Publishers have embraced a fully remote or hybrid work model while Service Providers have gradually brought employees back into the office. Service Providers may prefer their talent to be in-house to **appeal to clients** and/or to provide a higher degree of confidence in **maintaining IP security**.

72%

of **Developers/Publishers** (a steep jump from 18% last year) expect at least 75% of their internal team to be working from home a year from now.

VS

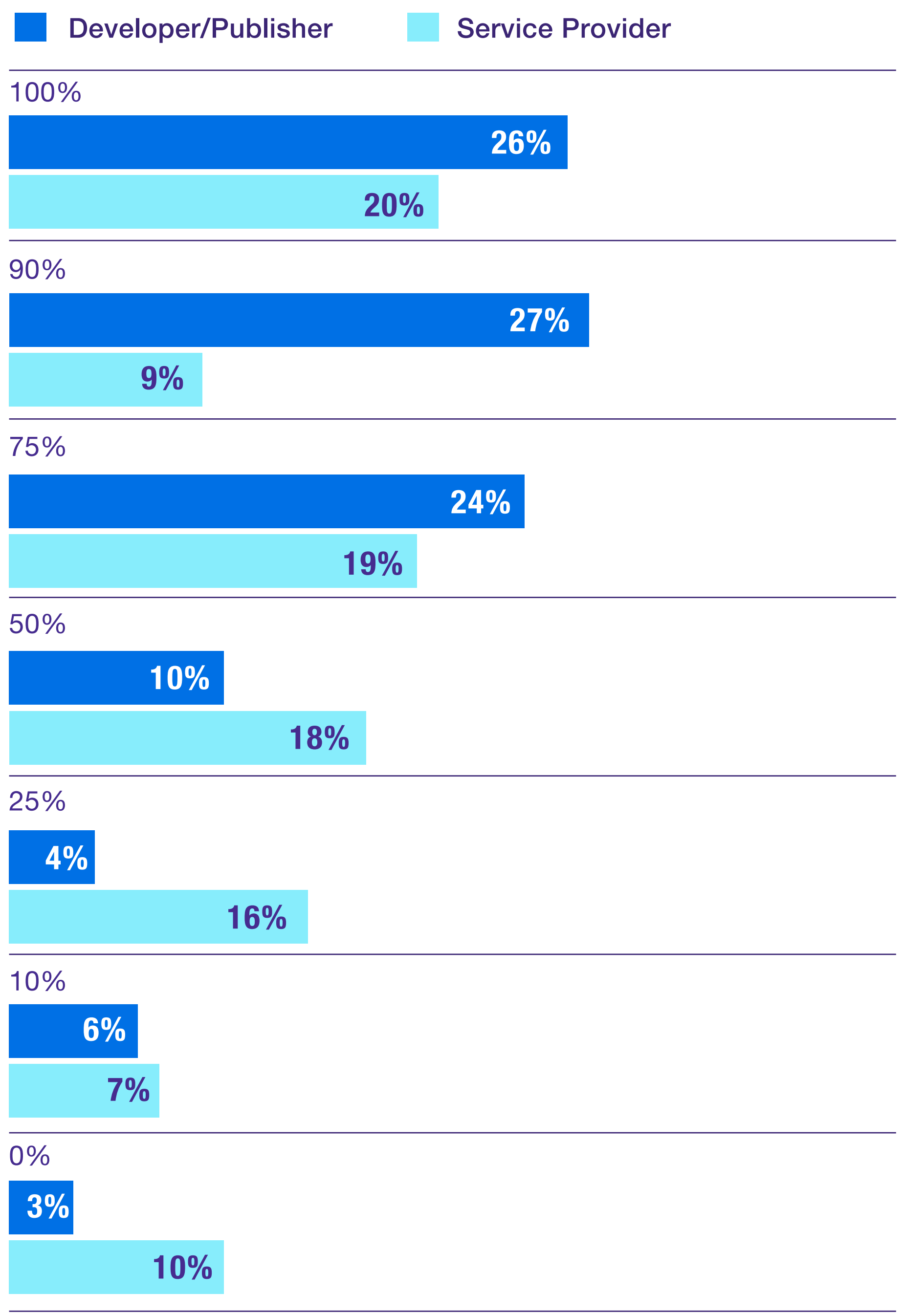
only 36%

of **Service Providers** report the same. Service Providers plan to continue to **decrease the number of employees working from home** over the next year.

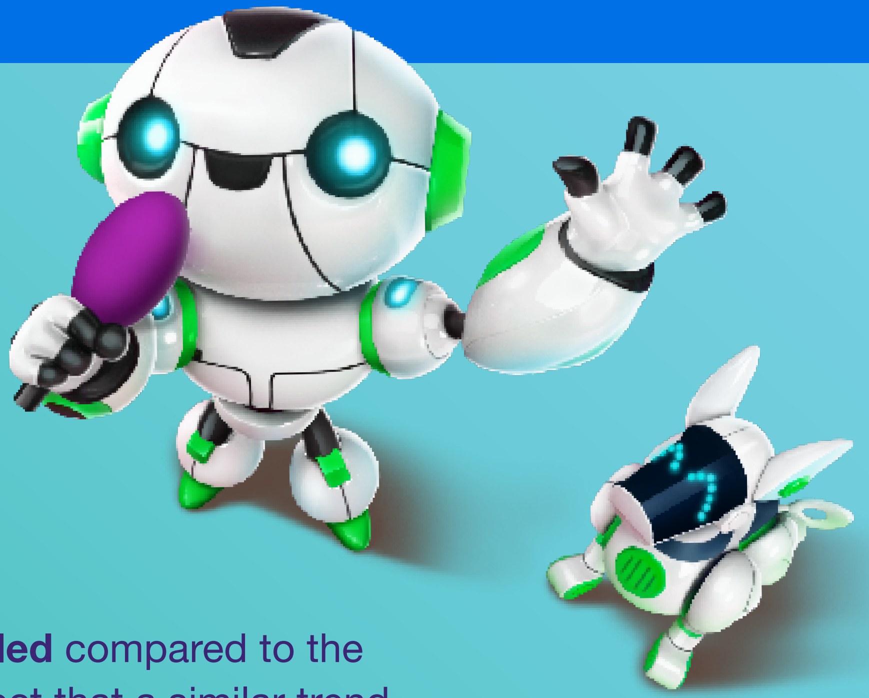
New to managing hybrid teams?
Learn 5 key skills managers will need this year.

Gleb Tsipursky. "5 key skills new managers will need this year" Fast Company, January 5, 2023

% OF INTERNAL TEAM WORKING FROM HOME



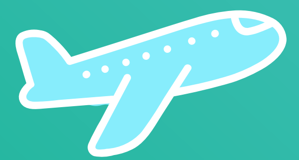
TRAVEL



Games conferences are back in full swing!

Industry conference travel has more than **tripled** compared to the previous year for Service Providers. We suspect that a similar trend exists for Developers/Publishers.

Service Providers are making **more onsite visits** to Developers/Publishers than the other way around. To build trust, offer support and better understand Service Providers' cultures, Developers/Publishers can benefit from taking **more trips** to visit their partners.



90%
of Service Providers plan to travel for work over the next year.

83%
of Developers/Publishers plan to travel for work related to external development as well.

TRAVEL OVER THE PAST YEAR

DE&I OBJECTIVES

Nearly twice as many Developers/Publishers have DE&I objectives in their workplaces as compared to Service Providers.

We lack data on the location of Developers/Publishers, but we suspect that the **imbalance of DE&I objectives** between Developer/Publishers and Service Providers may be influenced by Western ideologies for Developers/ Publishers, but not for Service Providers in some other regions globally.

It's vital we recognize that this group is inherently diverse and, as a result, certain challenges may be perceived as more or less significant or taboo. Regardless, we need to understand our cultural differences in order to better understand one another..

84%
of Developers/Publishers have DE&I objectives in place

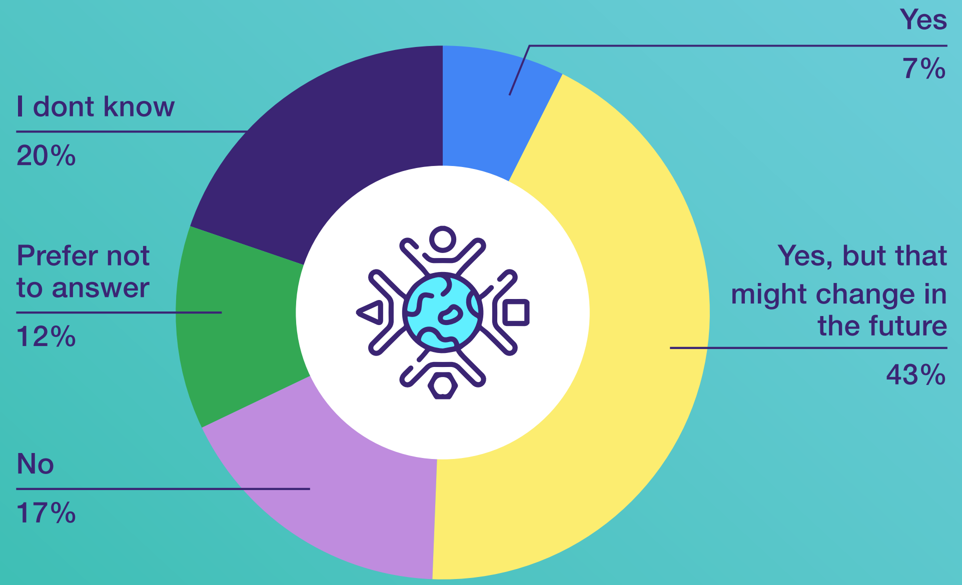
21%
of Service Providers plan to implement DE&I objectives

DE&I OBJECTIVES IN THE WORKPLACE

DE&I OBJECTIVES

Majority of Developers/Publishers reiterate that a commitment to DE&I is, or may be in the future, a deciding factor when choosing a partner.

Service Providers who have implemented DE&I measures share successes worth celebrating!



SERVICE PROVIDERS WHO HAVE IMPLEMENTED DE&I MEASURES SHARE:

“We have a robust and fair recruitment process and we are represented in under represented groups (e.g. Women in Games).”

“Attracted great people to the company that may not have considered applying before.”

“Appointed a female CEO, maintaining the balance of gender working in various roles on a meritocracy-based; won the DE&I award from Google”

Top DE&I Factors Developers/ Publishers look for most in Service Providers

1. Minority or gender balance of employees
2. DE&I training for employee
3. Minority or gender balance in leaderships
4. DE&I hiring initiatives
5. Visible company support of minority issues

And yet it’s key to look at the importance of DE&I with some nuance...

“We value our employees not based on DE&I, but mainly on output, team contribution and communication. We feel that is the fairest approach. Welcome and embrace diversity at full, but output is of the essence.”

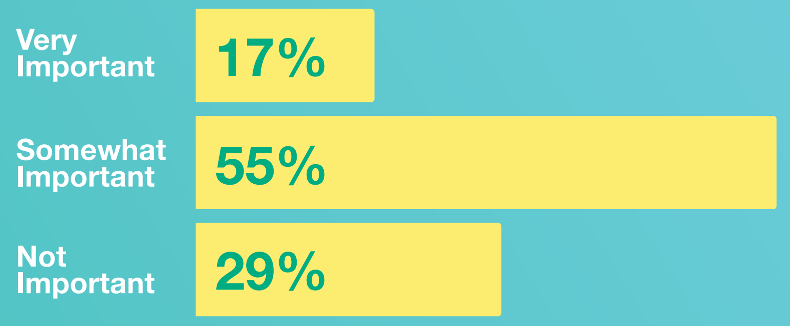
SUSTAINABILITY

Most Developers/Publishers want to work with Service Providers that have Environmental Sustainability initiatives.

We surveyed those who attended XDS 2022, and an average of **75%** reported the issue of climate change as **very important** or greater to their organizations.

XDS attendees also reported that their decision to *attend* games industry conferences is informed by an event's sustainability practices, with nearly **50%** indicating this as **Very Important** or above.

DEVELOPERS/PUBLISHERS:
Importance that Service Providers have Environmentally Sustainability initiatives



37%
of Service Providers have environmental sustainability initiatives in place

For companies that do not have sustainability initiatives, we encourage this community to do their part to learn more about the role our businesses can play in helping to reduce our impact.

Meeting in person is important, but we also acknowledge the impacts to our planet. Year over year, XDS will be evolving our robust sustainable event practices in order to claim our spot as one of the video game industry's **most sustainable events.**

Check out
XDS' Sustainability Vision

XDS | EXTERNAL DEVELOPMENT SUMMIT

FUTURE OF EXTERNAL DEVELOPMENT

Top concerns about the future of external development

DEVELOPERS / PUBLISHERS		SERVICE PROVIDERS
Acquisition of Service Providers by other Developers/Publishers	vs	**Impacts of AI on art production and client demand**
Economic instability and rising costs	=	**Economic instability and rising costs**
Availability of reliable, quality talent to meet needs	=	**Availability of reliable, quality talent to meet clients' needs**

WHAT RESPONDENTS SAID:

"The rapid absorption of so many partners by a small handful of ever-expanding parent companies greatly concerns me. My main worry is the resulting homogenization of quality/cost (an effect I am already starting to see play out)."

"Rising costs [drive Devs/Pubs to] shift towards smaller partners [but those smaller partners] struggle to deliver the level of service expected and previously delivered upon. Increased attrition in partners is leading to a decrease in quality of service."

"AI use will have a substantial impact, and if existing big external service providers adopt these tools first they will further broaden the gap between themselves and competitors."

WHAT RESPONDENTS SAID:

"Effects of growing AI capability is nearly impossible to predict."

"We are afraid that companies will only want to acquire providers instead of hiring their services."

"Shifting economy and regression will inevitably impact consumers' ability to buy games and the type of games that they buy. There is a chance this will negatively influence sales projections, which in turn can move focus to minimizing costs, and limiting the amount of resources spent on outsourcing."

AI IS QUICKLY EVOLVING.

As we publish this report, AI is quickly evolving. We expect the impact of generative AI on external development to be more significant by next year's report, and we will address it in more depth.

*James Batchelor. "The potential and perils of generative AI," Feb 14, 2023

DEVELOPERS/PUBLISHERS
Frequency of switching partners

Do you foresee switching your current most frequently used partners in the next 2-years based on changes in your external development strategy? If so, why?

		2023	2022	2021	2020
YES	We need to diversify work with other partners (too consolidated)	**46%** ↑	40%	47%	39%
NO	I do not foresee switching	**35%**	35%	43%	44%
YES	Due to capacity issues	**31%** ↓	39%	32%	21%
YES	**Geopolitical instability is incurring risk [NEW]**	**24%**	—	—	—
YES	New and emerging areas are making our current partner less competitive	**18%** ↑	15%	12%	14%
YES	We are changing our external development strategy and current partners aren't quite what we need	**11%** ↓	23%	19%	21%
YES	Partner is likely to get acquired	**7%** ↓	12%	7%	3%

Developers/Publishers are taking a more **conservative approach** to their external development strategy due to **scarcity of high-quality Service Provider talent** and **budget concerns.**

35%

of Developers/Publishers DO NOT plan to switch partners over the next 2 years.

Those who *are* planning to switch are doing so primarily to **diversify** (ie. too many eggs in one basket), to address **capacity issues** and/or because they suspect a partner is likely **to be acquired**.

MARKET OUTLOOK

We asked Developers/Publishers where they see the most emergence in services. The UK is ranked #1 overall.

MARKET LEADERS

	1	2	3
2023	UK	CHINA	INDIA
2022	BRAZIL	MALAYSIA	INDIA
2021	BRAZIL	INDIA	MALAYSIA
2020	VIETNAM	INDIA	MALAYSIA

We think the UK was identified as #1 overall due to both the growing concentration of co-dev studios in the region as well as Service Providers from Ukraine and Russia shifting production to the UK.

China is also a top 3 leader, including Art, Cinematics and, to our surprise, UI.

India remains a leader in external development on many fronts, notably in Art, Engineering, Co-Dev and QA.

Brazil continues to be a market leader in Art and Engineering, and it is ranked 5th overall.

While **Malaysia** shows strong numbers across many disciplines, it is not leading in a top 3 spot as it was the last 3 years.

EMERGING SERVICES

	1	2	3
ART	Brazil + China (tie)	Eastern Europe (countries not specified)	India
ENGINEERING	UK	Eastern Europe (countries not specified)	India + Brazil (tie)
CO-DEV	UK	USA	India + Brazil (tie)
CINEMATICS	UK + Canada (tie)	China	USA
QA	India	Canada	Poland
AUDIO	USA	UK	Canada
UI	USA + UK (tie)	Canada	China
UX	UK	Canada	USA

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2021

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1518 STUDIOS

*Thank you to **1518 Studios** for providing mascot artwork.*